

**REPORT OF THE AUDIT OF THE
HOPKINS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Patricia Hawkins, Hopkins County Judge/Executive
Members of the Hopkins County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hopkins County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Hopkins County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HOPKINS COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Peercy and Gray, PSC, has completed the audit of the Hopkins Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$9,987,188 as of June 30, 2004. The fiscal court had unrestricted net assets of \$7,214,345 in its governmental activities as of June 30, 2004, with total net assets of \$9,954,406. In its enterprise fund, total net cash and cash equivalents were \$32,782 with total net assets of \$32,782. The fiscal court had total debt principal as of June 30, 2004 of \$10,175,000 with \$420,000 due within the next year.

Report Comment:

- The Former Jailer, Tim Lantrip, Had Undisclosed Cash Disbursements Of \$29,693

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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PEERCY AND GRAY, PSC

Certified Public Accountants

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Patricia Hawkins, Hopkins County Judge/Executive

Members of the Hopkins County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hopkins County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Hopkins County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Hopkins County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hopkins County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Patricia Hawkins, Hopkins County Judge/Executive
Members of the Hopkins County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hopkins County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 8, 2005, on our consideration of Hopkins County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Jailer, Tim Lantrip, Had Undisclosed Cash Disbursements Of \$29,693

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
July 8, 2005

HOPKINS COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Patricia Hawkins	County Judge/Executive
Karol Welch	Magistrate
Coletta Wheeler	Magistrate
Tim Riggs	Magistrate
Larry Wilson	Magistrate
Larry Rogers	Magistrate
Mike Duncan	Magistrate
Jon Garrett	Magistrate

Other Elected Officials:

Robert Moore	County Attorney
Jim Lantrip	Jailer
Devra Steckler	County Clerk
Carolyn Polley	Circuit Court Clerk
S. Frank Latham	Sheriff
David Gordon	Property Valuation Administrator
John Walters	Coroner

Appointed Personnel:

Cindy Jones	County Treasurer
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HOPKINS COUNTY FISCAL COURT

Hopkins County Government Center
56 North Main Street • P. O. Box 523
Madisonville, Kentucky 42431
270-821-8294 • Fax 270-821-8295
Email: judgeexecutive@hopkinscounty.net

JUDGE EXECUTIVE
Patricia Hawkins

Management's Discussion and Analysis June 30, 2004

The financial management of Hopkins County, Kentucky offers readers of Hopkins County's financial statements this narrative overview and analysis of the financial activities of Hopkins County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our financial statements and the notes to the financial statements.

Financial Highlights.

- Hopkins County had net assets of \$9,987,188 as of June 30, 2004. The fiscal court had unrestricted net assets of \$7,214,345 in its governmental activities as of June 30, 2004. In its enterprise fund, cash and cash equivalents were \$32,782 with total assets of \$32,782.
- Total net assets increased \$2,651,151 during fiscal year 2004.
- At the close of the current fiscal year, Hopkins County governmental funds reported current assets of \$7,214,426. Of this amount, \$7,214,345 is available for spending at the government's discretion (unreserved fund balance).
- Hopkins County's total indebtedness at the close of fiscal year June 30, 2004 was \$10,175,000, of which \$9,755,000 is long-term debt (due after 1 year) and \$420,000 is the current maturities of long-term debt (to be paid within 1 year). Debt reductions were \$400,000 for the year.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Hopkins County's basic financial statements. Hopkins County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Government-wide Financial Statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of Hopkins County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on Hopkins County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Hopkins County is improving or deteriorating.

Karol Welch
District 1

Coletta Wheeler
District 2

Tim Riggs
District 3

MAGISTRATES

Larry Wilson
District 4

Larry Rogers
District 5

Mike Duncan
District 6

Jon Garrett
District 7



Hopkins County, Kentucky
Management's Discussion & Analysis
June 30, 2004
(Continued)

Government-wide Financial Statements. (Continued)

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund activities.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Hopkins County's governmental activities include general government, protection to persons and property, general health and sanitation, social services, recreation and culture, roads, debt service, capital projects, and administration. Hopkins County has one business type activity - Jail Canteen.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Hopkins County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements. All of the funds of Hopkins County can be divided into broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because of focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Hopkins County, Kentucky
Management's Discussion & Analysis
June 30, 2004
(Continued)

Governmental Funds. (Continued)

Hopkins County maintains seven (7) individual governmental funds. All of the governmental funds, except the general fund, are considered special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the following:

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- Local Government Economic Assistance Fund (LGEA)
- Contingency Fund

Hopkins County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund, Road Fund, Jail Fund, Local Government Economic Assistance Fund, and Contingency Fund to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund, an enterprise fund. The county maintains this enterprise fund to account for the sale of items to inmates.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Hopkins County, Kentucky
Management's Discussion & Analysis
June 30, 2004
(Continued)

Financial Analysis of the County as a Whole

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Table 1 is an abbreviated statement of net assets.

Table 1
Hopkins County's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current and Other Assets	\$ 5,458,075	\$ 7,214,426	\$ 10,332	\$ 32,782	\$ 5,468,407	\$ 7,247,208
Capital Assets	12,442,630	12,914,980			12,442,630	12,914,980
Total Assets	17,900,705	20,129,406	10,332	32,782	17,911,037	20,162,188
Liabilities						
Current and						
Other Liabilities		420,000				420,000
Long-Term Liabilities	10,575,000	9,755,000			10,575,000	9,755,000
Total Liabilities	10,575,000	10,175,000			10,575,000	10,175,000
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	1,867,630	2,739,980			1,867,630	2,739,980
Restricted		81	10,332		10,332	5,818
Unrestricted	5,458,075	7,214,345			5,458,075	7,241,390
Total Net Assets	\$ 7,325,705	\$ 9,954,406	\$ 10,332	\$ 32,782	\$ 7,336,037	\$ 9,987,188

Changes in Net Assets

- *Governmental Activities.* Investment in capital assets and infrastructure, net of related debt increased to \$2,739,980 primarily due to the valuation of new infrastructure assets, and new equipment purchases, net of depreciation. The net assets for 2003 have been restated on the government-wide Statement of Activities to reflect the addition of capital assets and infrastructure from prior years.
- *Business-Type Activities.* Hopkins County's net assets increased by \$22,450 in fiscal year 2004 primarily due to more items sold.

Hopkins County, Kentucky
Management's Discussion & Analysis
June 30, 2004
(Continued)

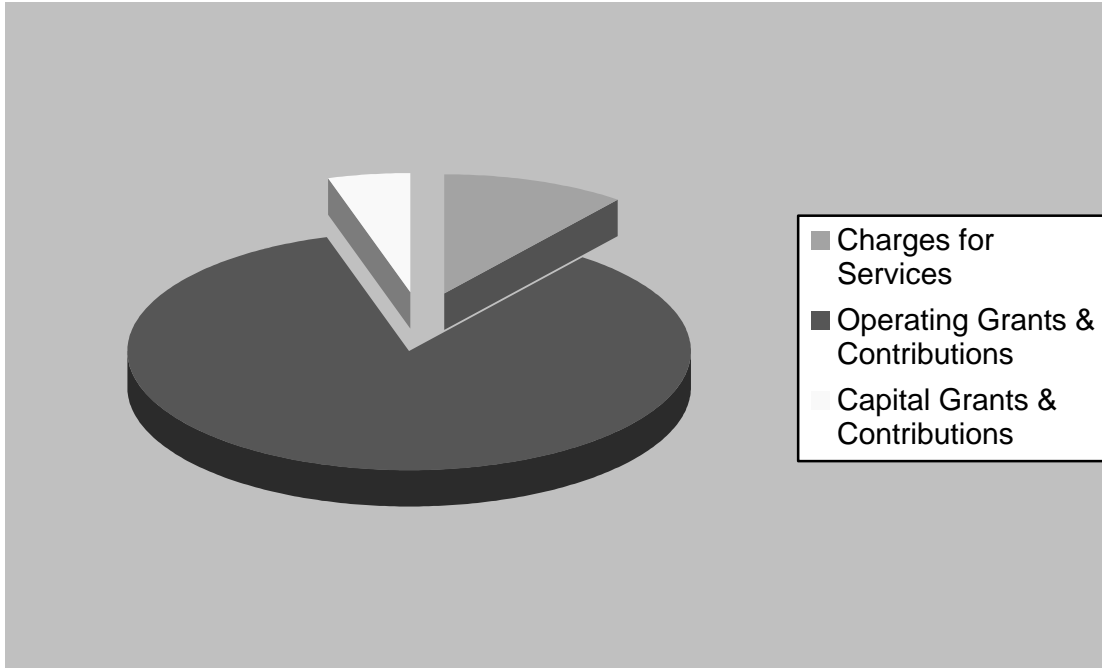
Statement of Activities. As noted earlier this statement shows how the government's net assets changed during the year. Table 2 and the graphs that follow illustrate how the County's net assets changed for 2004.

Table 2
Hopkins County's Activities

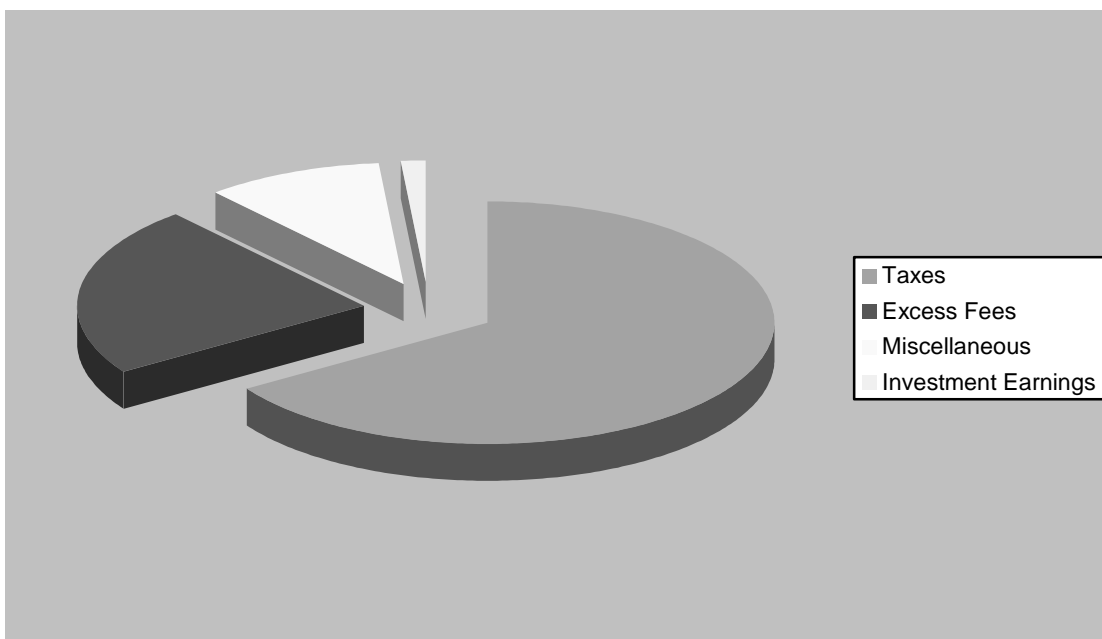
Program Revenues:		
Charges for Services	\$ 901,310	
Operating Grants and Contributions	7,344,965	
Capital Grants and Contributions	400,000	\$ 8,646,275
General Revenues:		
Taxes	4,954,276	
Excess Fees	1,710,444	
Unrestricted Investment Earnings	102,452	
Miscellaneous Revenues	760,327	7,527,499
Total Revenues		\$ 16,173,774
Program Expenses:		
General Government	5,698,658	
Protection to Persons and Property	3,222,643	
General Health and Sanitation	1,129,212	
Social Services	75,506	
Recreation and Culture	324,093	
Roads	1,774,446	
Interest on Long-Term Debt	584,195	
Capital Projects	107,994	
Jail Canteen	605,876	
Total Expense		\$ 13,522,623
Change in Net Assets		2,651,151
Beginning Net Assets (Restated)		7,336,037
Ending Net Assets		\$ 9,987,188

**Hopkins County, Kentucky
Management's Discussion & Analysis
June 30, 2004
(Continued)**

**Hopkins County
Program Revenues 2004**

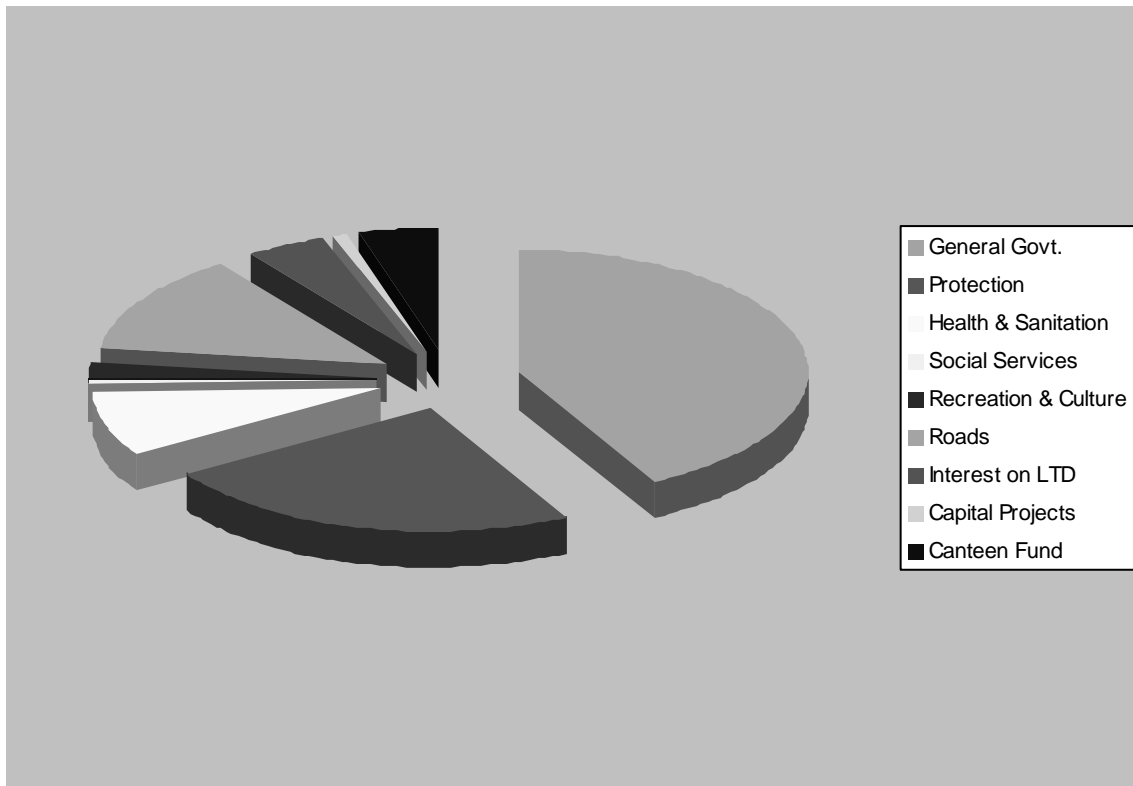


**Hopkins County
General Revenues 2004**



**Hopkins County, Kentucky
Management's Discussion & Analysis
June 30, 2004
(Continued)**

**Hopkins County
Program Expense 2004**



Financial Analysis of the County's Funds. As noted earlier, Hopkins County uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements.

Governmental Funds Overview. The focus of Hopkins County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2004 fiscal year, the combined ending fund balances of County governmental funds were \$7,214,426. This consists of unreserved fund balance of \$7,214,345, which is available as working capital and for current spending in accordance with the purposes of the specific funds, and \$ 81 of reserved fund balance for debt service.

The county has (5) five major governmental, and (2) two non-major funds.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- Local Government Economic Assistance Fund (LGEA)
- Contingency Fund

Non-major Funds:

- Tourism Fund
- Local Government Economic Development Fund

Hopkins County, Kentucky
Management's Discussion & Analysis
June 30, 2004
(Continued)

Financial Analysis of the County's Funds. (Continued)

1. The General Fund is the chief operating fund of Hopkins County. At the end of June 30, 2004 fiscal year, unreserved fund balance and total fund balance of the General Fund was \$2,369,833. The County received \$4,854,660 in real and personal property, motor vehicle, and other taxes for approximately 62% of the county's general revenues. Hopkins County received a \$1,000,000 state grant, which was for the Hopkins County Industrial Development Authority. This grant contributed approximately 13% of the County's general fund revenues. Various other service fees, licenses & permits, state grants, interest and miscellaneous revenues contribute to the remaining 25% of the revenues.
2. The Road Fund is the fund related to County road construction and maintenance. The fiscal year 2004 expenditures for Road Fund were \$2,733,784.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund received \$2,279,824 from intergovernmental fees, primarily for housing prisoners.
4. The Local Government Economic Assistance Fund (LGEA) had a fund balance of \$2,651,216 as of June 30, 2004.
5. The Contingency Fund had a fund balance of \$1,541,292 as of June 30, 2004.

Proprietary Funds Overview. The County's Proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Hopkins County has (1) one enterprise-type proprietary fund, it is:

- Jail Canteen Fund

The Jail Canteen Fund's unrestricted net assets at the end of June 30, 2004 fiscal year, amounted to \$27,045 and total net assets were \$32,782.

General Fund Budgetary Highlights. Hopkins County budget was amended during the fiscal year increasing the budgeted revenues by \$40,695 and increasing the budgeted expenditures by \$40,695. Actual revenues were \$870,979 over budget. Actual expenditures were \$630,011 under budget.

Capital Assets and Debt Administration.

Capital Assets. Hopkins County's investment in capital assets for its government and business type activities as of June 30, 2004, amount to \$12,914,980 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, equipment, vehicles, and infrastructure.

Additional information of the County's capital assets can be found in Note 3 of this report

Hopkins County, Kentucky
Management's Discussion & Analysis
June 30, 2004
(Continued)

Capital Assets and Debt Administration. (Continued)

Table 3
Hopkins County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Infrastructure	-	778,798	-	-	-	778,798
Land	406,500	406,500	-	-	406,500	406,500
Buildings & Improvements	11,192,293	10,865,290	-	-	11,192,293	10,865,290
Other Equipment	522,905	513,947	-	-	522,905	513,947
Vehicles & Equipment	320,932	350,445	-	-	320,932	350,445
Total Net Capital Assets	\$ 12,442,630	\$ 12,914,980	\$ 0	\$ 0	\$ 12,442,630	\$ 12,914,980

Long-Term Debt. At the end of the 2004 fiscal year, Hopkins County had total bonded debt outstanding of \$10,175,000. The total is from General Obligation Bonds totaling \$10,175,000.

Requests For Information. This financial report is designed to provide a general overview of Hopkins County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to Patricia Hawkins, Hopkins County Judge/Executive.

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HOPKINS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

HOPKINS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 7,214,427	\$ 32,782	\$ 7,247,209
Total Current Assets	7,214,427	32,782	7,247,209
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation:			
Land and Land Improvements	406,500		406,500
Buildings	10,865,290		10,865,290
Other Equipment	513,947		513,947
Vehicles and Equipment	350,445		350,445
Infrastructure	778,798		778,798
Total Noncurrent Assets	12,914,980		12,914,980
Total Assets	20,129,407	32,782	20,162,189
LIABILITIES			
Current Liabilities:			
Bonds Payable	420,000		420,000
Total Current Liabilities	420,000		420,000
Noncurrent Liabilities:			
Bonds Payable	9,755,000		9,755,000
Total Noncurrent Liabilities	9,755,000		9,755,000
Total Liabilities	10,175,000		10,175,000
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	2,739,980		2,739,980
Restricted For:			
Debt Service	81		81
Other Purposes		5,737	5,737
Unrestricted	7,214,346	27,045	7,241,391
Total net assets	\$ 9,954,407	\$ 32,782	\$ 9,987,189

The accompanying notes are an integral part of the financial statements.

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HOPKINS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

HOPKINS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities :				
General Government	\$ 5,698,658	\$ 72,960	\$ 937,518	\$
Protection to Persons and Property	3,222,643	190,443	2,279,824	
General Health and Sanitation	1,129,212	9,581	2,378,496	
Social Services	75,506			
Recreation and Culture	324,093			
Roads	1,774,446		1,749,127	
Interest on Long-Term Debt	584,195			
Capital Projects	107,994			400,000
Total Governmental Activities	12,916,747	272,984	7,344,965	400,000
Business-type Activities:				
Jail Canteen	605,876	628,326		
Total Business-type Activities	605,876	628,326		
Total Primary Government	\$ 13,522,623	\$ 901,310	\$ 7,344,965	\$ 400,000

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HOPKINS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (4,688,180)	\$	\$ (4,688,180)
(752,376)		(752,376)
1,258,865		1,258,865
(75,506)		(75,506)
(324,093)		(324,093)
(25,319)		(25,319)
(584,195)		(584,195)
292,006		292,006
(4,898,798)		(4,898,798)
	22,450	22,450
	22,450	22,450
(4,898,798)	22,450	(4,876,348)
1,354,833		1,354,833
169,471		169,471
225,783		225,783
3,204,189		3,204,189
1,710,444		1,710,444
102,452		102,452
760,327		760,327
7,527,499		7,527,499
2,628,701	22,450	2,651,151
7,325,705	10,332	7,336,037
\$ 9,954,406	\$ 32,782	\$ 9,987,188

The accompanying notes are an integral part of the financial statements.

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HOPKINS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004

HOPKINS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 2,369,833	\$ 206,881	\$ 344,198	\$ 2,651,216
Total Assets	<u>\$ 2,369,833</u>	<u>\$ 206,881</u>	<u>\$ 344,198</u>	<u>\$ 2,651,216</u>
FUND BALANCES				
Unreserved:				
General Fund	\$ 2,369,833	\$	\$	\$
Special Revenue Fund		206,881	344,117	2,651,216
Reserved for:				
Debt Service			81	
Total Fund Balances	<u>\$ 2,369,833</u>	<u>\$ 206,881</u>	<u>\$ 344,198</u>	<u>\$ 2,651,216</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Amounts Reported For Governmental Activities In The Statement
Of Net Assets Are Different Because:

Total Fund Balances

Capital Assets Used in Governmental Activities Are Not Financial Resources
And Therefore Are Not Reported in the Funds.

Accumulated Depreciation

Long-term debt is not due and payable in the current period and,
therefore, is not reported in the funds.

Bonded Debt Principal

Net Assets Of Governmental Activities

HOPKINS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

<u>Contingency Fund</u>	<u>Non- Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,541,292	\$ 101,006	\$ 7,214,427
<u>\$ 1,541,292</u>	<u>\$ 101,006</u>	<u>\$ 7,214,427</u>

\$	\$	\$
1,541,292	101,006	2,369,833
		4,844,512

81

<u>\$ 1,541,292</u>	<u>\$ 101,006</u>	<u>\$ 7,214,426</u>
---------------------	-------------------	---------------------

\$ 7,214,426

17,006,685
(4,091,705)

(10,175,000)

\$ 9,954,406

The accompanying notes are an integral part of the financial statements.

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HOPKINS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HOPKINS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 4,854,660	\$	\$	\$
Excess Fees	1,710,444			
Licenses and Permits	103,789			
Intergovernmental	937,518	1,749,127	2,279,824	2,378,496
Charges for Services	72,960		190,443	9,581
Miscellaneous	37,540	337,411	129,820	151,768
Interest	37,956	3,838	4,127	28,909
Total Revenues	<u>7,754,867</u>	<u>2,090,376</u>	<u>2,604,214</u>	<u>2,568,754</u>
EXPENDITURES				
General Government	3,164,562			99,888
Protection to Persons and Property	145,288		2,635,812	136,329
General Health and Sanitation	64,049			1,044,436
Social Services	75,506			
Recreation and Culture	9,041			315,000
Roads and Airport		1,426,871		220,921
Debt Service			984,195	
Capital Projects	37,907	1,118,179	18,044	1,074
Administration	985,929	188,734	574,263	143,017
Total Expenditures	<u>4,482,282</u>	<u>2,733,784</u>	<u>4,212,314</u>	<u>1,960,665</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>3,272,585</u>	<u>(643,408)</u>	<u>(1,608,100)</u>	<u>608,089</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		650,000	1,500,000	825,000
Transfers To Other Funds	(3,475,000)			
Total Other Financing Sources (Uses)	<u>(3,475,000)</u>	<u>650,000</u>	<u>1,500,000</u>	<u>825,000</u>
Net Change in Fund Balances	(202,415)	6,592	(108,100)	1,433,089
Fund Balances - Beginning (Restated)	2,572,248	200,289	452,298	1,218,127
Fund Balances - Ending	<u>\$ 2,369,833</u>	<u>\$ 206,881</u>	<u>\$ 344,198</u>	<u>\$ 2,651,216</u>

The accompanying notes are an integral part of the financial statements.

HOPKINS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Contingency Fund	Non- Major Governmental Funds	Total Governmental Funds
\$	\$ 99,615	\$ 4,954,275
		1,710,444
		103,789
	400,000	7,744,965
		272,984
		656,539
27,177	445	102,452
27,177	500,060	15,545,448
	400,000	3,664,450
		2,917,429
		1,108,485
		75,506
	52	324,093
		1,647,792
		984,195
		1,175,204
		1,891,943
	400,052	13,789,097
27,177	100,008	1,756,351
500,000		3,475,000
		(3,475,000)
500,000		
527,177	100,008	1,756,351
1,014,115	998	5,458,075
\$ 1,541,292	\$ 101,006	\$ 7,214,426

The accompanying notes are an integral part of the financial statements.

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HOPKINS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HOPKINS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Amounts reported for governmental activities in the
Statement of Activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$	1,756,351
--	----	-----------

Governmental Funds report capital outlays as expenditures. However, in the
Statement of Activities the cost of those assets are allocated over their
estimated useful lives and reported as depreciation expense.

Capital Outlay		1,067,210
Depreciation Expense		(594,860)

The repayment of principal on long-term debt consumes the current
financial resources to governmental funds.

Bond Principal Payments		400,000
-------------------------	--	---------

Change in Net Assets of Governmental Activities	\$	2,628,701
---	----	-----------

The accompanying notes are an integral part of the financial statements.

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HOPKINS COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
June 30, 2004

HOPKINS COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 32,782
Total Current Assets	<u>32,782</u>
Net Assets	
Restricted	5,737
Unrestricted	<u>27,045</u>
Total Net Assets	<u><u>\$ 32,782</u></u>

The accompanying notes are an integral part of the financial statements.

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HOPKINS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HOPKINS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 628,326
Total Operating Revenues	<u>628,326</u>
Operating Expenses	
Cost of Sales	201,361
Personnel Costs	18,486
Miscellaneous	11,857
Total Operating Expenses	<u>231,704</u>
Operating Income	<u>396,622</u>
Nonoperating Revenues (Expenses)	
Fees to Fiscal Court	(311,822)
Inmate Refunds	(62,350)
Total Nonoperating Revenues (Expenses)	<u>(374,172)</u>
Change In Net Assets	22,450
Total Net Assets - Beginning	<u>10,332</u>
Total Net Assets - Ending	<u><u>\$ 32,782</u></u>

The accompanying notes are an integral part of the financial statements.

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HOPKINS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

HOPKINS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 628,326
Cost of Sales	(201,361)
Personnel Costs	(18,486)
Miscellaneous	(11,857)
Net Cash Provided By Operating Activities	<u>396,622</u>
Cash Flows From Noncapital Financing Activities	
Inmate Refunds on Accounts	(62,350)
Payments to Fiscal Court	(311,822)
Net Cash Used by Noncapital Financing Activities	(374,172)
Net Increase in Cash and Cash Equivalents	22,450
Cash and Cash Equivalents - July 1, 2003	<u>10,332</u>
Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 32,782</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	<u>\$ 396,622</u>
Total Cash Provided By Operating Activities	<u><u>\$ 396,622</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Hopkins County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

C. Hopkins County Elected Officials Not Part Of Hopkins County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Hopkins County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Hopkins County, Kentucky.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Hopkins County Elected Officials Not Part Of Hopkins County, Kentucky (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for general health and sanitation, social services, and economic assistance expenses of the county. The primary sources of revenue are state grants, coal and mineral severance taxes, landfill user fees, and recreational area user fees. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Contingency Fund- The primary purpose of this fund is to annually set aside some investments for future contingencies.

The primary government also has the following nonmajor funds: Tourism Fund and Local Government Economic Development Fund.

Special Revenue Funds

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Local Government Economic Development Fund, Contingency Fund and Tourism Fund are presented as Special Revenue funds. Special Revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Special Revenue Funds (Continued)

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. This fund also accounts for funds received from the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. The County has elected to record infrastructure starting with the fiscal year 2004 activity with no retroactive recording. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Furniture and Fixtures	\$ 2,500	3-25
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the Medical Center Ambulance Service, Incorporated is considered a related organization of Hopkins County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Hopkins County Joint Planning Commission is considered a joint venture of Hopkins County Fiscal Court.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits (Continued)

requirements were met, and as of June 30, 2004, the primary government's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government or component units as beneficiary/obligee on the bond.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases
Primary Government:			
Governmental Activities:			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 406,500	\$	\$ 406,500
Total Capital Assets Not Being Depreciated	406,500		406,500
Capital Assets, Being Depreciated:			
Buildings	13,004,488		13,004,488
Other Equipment	1,733,594	90,698	1,824,292
Vehicles and Equipment	794,893	143,300	938,193
Infrastructure		833,212	833,212
Total Capital Assets Being Depreciated	15,532,975	1,067,210	16,600,185
Less Accumulated Depreciation For:			
Buildings	(1,812,195)	(327,003)	(2,139,198)
Other Equipment	(1,210,689)	(99,656)	(1,310,345)
Vehicles and Equipment	(473,961)	(113,787)	(587,748)
Infrastructure		(54,414)	(54,414)
Total Accumulated Depreciation	(3,496,845)	(594,860)	(4,091,705)
Total Capital Assets, Being Depreciated, Net	12,036,130	472,350	12,508,480
Governmental Activities Capital Assets, Net	\$ 12,442,630	\$ 472,350	\$ 12,914,980

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 142,265
Protection to Persons and Property	305,214
General Health and Sanitation	20,727
Roads Including Infrastructure	<u>126,654</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 594,860</u>

Note 4. Long-term Debt

A. General Obligation Bonds, Series 2000

On February 8, 2000, the Hopkins County Fiscal Court issued lease revenue bonds for the purpose of constructing and equipping a new detention center, refunding of a loan to renovate the jail annex and for the cost of the issuance of the bonds. The following is a summary of some of the significant provisions of the Series 2000 bond issue held:

Par amount of original issue	\$11,320,000
Discount on original issue	226,151
Rate of interest on remaining issue	5.00% to 5.75%
Bonds due	February 1
Interest due	February 1 and August 1
First principal payment	February 1, 2002
Last principal payment	February 1, 2020

Call Provisions:

2000 Series bonds maturing on and after February 1, 2010 are subject to redemption at the option of the Corporation (and upon its written discretion to the Trustee) prior to maturity on February 1, 2007 and on any date thereafter in whole, or from time to time in part, in increments of \$5,000 and in any order of maturity (less than all of a single maturity to be selected by lot by the Trustee) at the following prices (expressed as percentages of principal amount) plus interest accruing to the redemption date:

February 1, 2010 and prior to February 1, 2011	101.0%
February 1, 2011 and prior to February 1, 2012	100.5%
February 1, 2012 and thereafter	100.0%

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

A. General Obligation Bonds, Series 2000 (Continued)

The following is a summary of the remaining principal and interest requirements of the Series 2000 as of June 30, 2004:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 420,000	\$ 564,195
2006	440,000	542,145
2007	465,000	519,045
2008	485,000	494,632
2009	510,000	469,170
2010-2014	3,005,000	1,899,068
2015-2019	3,925,000	961,886
2020	925,000	53,188
Totals	<u>\$ 10,175,000</u>	<u>\$ 5,503,329</u>

B. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 10,575,000	\$	\$ 400,000	\$10,175,000	\$ 420,000
<u>Governmental Activities</u>					
Long-term Liabilities	<u>\$ 10,575,000</u>	<u>\$ 0</u>	<u>\$ 400,000</u>	<u>\$10,175,000</u>	<u>\$ 420,000</u>

Note 5. Commitments and Contingencies

A. Ambulance Service Contract

The Medical Center Ambulance Service, Incorporated (MCAS) operates under a lease with Hopkins County. The term of the lease is for one year, and such lease is automatically renewed on a year-to-year basis unless terminated by one of the parties. Under terms of the lease, the County is required to furnish the necessary number of ambulances required for the operation of the ambulance service and is to reimburse MCAS for the support of the County. MCAS has agreed to provide suitable and necessary ambulance service on a twenty-four hour basis to the residents of Hopkins County and to other persons requiring such services while in Hopkins County.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Commitments and Contingencies (Continued)

A. Ambulance Service Contract (Continued)

Under the lease agreement between MCAS and Hopkins County, the county has agreed to reimburse MCAS during the term of the lease for losses incurred in its' operation. The county's obligation is limited to the amount budgeted in any given year. The amount included in the budget may not go below \$66,272. MCAS records such subsidy as a reduction of the excess of expenses over revenues in the year in which such excess expenses are incurred.

B. Landfill Closure and Postclosure Costs

The Hopkins County Landfill was closed in June 1992. The County must comply with established state and federal landfill closure and postclosure procedures and must perform maintenance and monitor procedures. Estimated postclosure care costs total \$955,000. The cost may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that postclosure costs will be paid out of the Local Government Economic Assistance fund to the extent that funds are available, with any excess costs being funded using long-term borrowings.

Note 6. Employee Retirement System

Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

All eligible employees of Hopkins County are allowed to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

HOPKINS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862 or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2004, Hopkins County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Subsequent Events

- A. In 1999, the Hopkins County Fiscal Court implemented a 10% Insurance Premium Tax. The City of Madisonville already had in place a 5% Insurance Premium Tax. Effective July 1, 2004 the City of Madisonville raised its tax to 8.5%. This decreased the county's portion of the tax in the City of Madisonville to 1.5% and has reduced revenue by approximately \$700,000 in the fiscal year ending June 30, 2005. Subsequent annual reductions to the county's revenue are expected to be approximately \$1,000,000.
- B. Hopkins County Fiscal Court entered into a bond issue, County of Hopkins, Kentucky General Obligation Refunding bonds (Detention Facility Project), Series 2005 on June 28, 2005. These bonds were issued for the purpose of advanced refunding of all outstanding County of Hopkins, Kentucky General Obligation Bonds (Detention Facility Project), Series 2000 and paying the associated costs of issuing the bonds. The following is a summary of some of the significant provisions of the Series of 2005 bond issue:

Series	Dated	Principal Amount	Interest Rate	Payment Dates	Maturity Date
2005	June 1, 2005	\$ 10,930,000	3% to 4%	February 1	2/1/2020

Note 10. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental type activities is an increase of \$1,868,258 due to capital assets and long-term debt previously not reported as well as a \$628 increase in the beginning net assets and General Fund balance for payroll account cash previously not included.

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HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,056,500	\$ 4,056,500	\$ 4,854,660	\$ 798,160
Excess Fees	70,000	70,000	62,829	(7,171)
Licenses and Permits	78,050	78,050	103,789	25,739
Intergovernmental Revenue	2,577,143	2,617,838	2,658,093	40,255
Miscellaneous	22,500	22,500	37,540	15,040
Interest	39,000	39,000	37,956	(1,044)
Total Revenues	6,843,193	6,883,888	7,754,867	870,979
EXPENDITURES				
General Government	3,326,416	3,365,786	3,164,562	201,224
Protection to Persons and Property	189,607	420,239	145,288	274,951
General Health and Sanitation	69,600	73,445	64,049	9,396
Social Services	75,255	75,255	75,506	(251)
Recreation and Culture	19,200	19,200	9,041	10,159
Debt Service	5,500	5,500		5,500
Capital Projects	60,000	56,200	37,907	18,293
Administration	1,470,470	1,096,668	985,929	110,739
Total Expenditures	5,216,048	5,112,293	4,482,282	630,011
Excess of Revenues				
Over Expenditures Before Other Financing Uses	1,627,145	1,771,595	3,272,585	1,500,990
OTHER FINANCING SOURCES USES				
Transfers To Other Funds	(4,367,145)	(4,367,145)	(3,475,000)	892,145
Total Other Financing Uses	(4,367,145)	(4,367,145)	(3,475,000)	892,145
Net Changes in Fund Balances	(2,740,000)	(2,595,550)	(202,415)	2,393,135
Fund Balances - Beginning	2,740,000	2,740,000	2,572,248	(167,752)
Fund Balances - Ending	\$ 0	\$ 144,450	\$ 2,369,833	\$ 2,225,383

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,483,950	\$ 1,532,250	\$ 1,749,127	\$ 216,877
Miscellaneous	268,300	268,300	337,411	69,111
Interest	5,000	5,000	3,838	(1,162)
Total Revenues	<u>1,757,250</u>	<u>1,805,550</u>	<u>2,090,376</u>	<u>284,826</u>
EXPENDITURES				
Roads	1,841,240	1,737,040	1,426,871	310,169
Capital Projects	950,000	1,123,200	1,118,179	5,021
Administration	249,800	229,100	188,734	40,366
Total Expenditures	<u>3,041,040</u>	<u>3,089,340</u>	<u>2,733,784</u>	<u>355,556</u>
Deficiency of Revenues				
Over Expenditures Before Other	<u>(1,283,790)</u>	<u>(1,283,790)</u>	<u>(643,408)</u>	<u>640,382</u>
Financing Sources				
OTHER FINANCING SOURCES				
Transfers From Other Funds	<u>1,083,790</u>	<u>1,083,790</u>	<u>650,000</u>	<u>(433,790)</u>
Total Other Financing Sources	<u>1,083,790</u>	<u>1,083,790</u>	<u>650,000</u>	<u>(433,790)</u>
Net Changes in Fund Balances	(200,000)	(200,000)	6,592	206,592
Fund Balances - Beginning	<u>200,000</u>	<u>200,000</u>	<u>200,289</u>	<u>289</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 206,881</u>	<u>\$ 206,881</u>

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,953,140	\$ 1,953,840	\$ 2,279,824	\$ 325,984
Charges for Services	200,100	200,100	190,443	(9,657)
Miscellaneous	135,510	135,510	129,820	(5,690)
Interest	3,000	3,000	4,127	1,127
Total Revenues	2,291,750	2,292,450	2,604,214	311,764
EXPENDITURES				
Protection to Persons and Property	2,477,040	2,743,685	2,635,812	107,873
Debt Service	984,200	984,200	984,195	5
Capital Projects	15,000	18,600	18,044	556
Administration	654,200	629,105	574,263	54,842
Total Expenditures	4,130,440	4,375,590	4,212,314	163,276
Deficiency of Revenues				
Over Expenditures Before Other Financing Sources	(1,838,690)	(2,083,140)	(1,608,100)	475,040
OTHER FINANCING SOURCES				
Transfers From Other Funds	1,638,690	1,638,690	1,500,000	(138,690)
Total Other Financing Sources	1,638,690	1,638,690	1,500,000	(138,690)
Net Changes in Fund Balances	(200,000)	(444,450)	(108,100)	336,350
Fund Balances - Beginning	200,000	350,000	452,298	102,298
Fund Balances - Ending	\$ 0	\$ (94,450)	\$ 344,198	\$ 438,648

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,310,000	\$ 2,810,000	\$ 2,378,496	\$ (431,504)
Charges for Services	10,000	10,000	9,581	(419)
Miscellaneous	106,300	106,300	151,768	45,468
Interest	5,000	5,000	28,909	23,909
Total Revenues	<u>1,431,300</u>	<u>2,931,300</u>	<u>2,568,754</u>	<u>(362,546)</u>
EXPENDITURES				
General Government	1,060,000	2,460,000	99,888	2,360,111
Protection to Persons and Property	139,700	139,700	136,329	3,371
General Health and Sanitation	1,853,665	1,854,725	1,044,436	810,289
Recreation and Culture	295,000	445,000	315,000	130,000
Roads	225,000	225,000	220,921	4,079
Capital Projects	10,000	10,000	1,074	8,926
Administration	192,600	191,540	143,017	48,523
Total Expenditures	<u>3,775,965</u>	<u>5,325,965</u>	<u>1,960,665</u>	<u>3,365,300</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources	<u>(2,344,665)</u>	<u>(2,394,665)</u>	<u>608,089</u>	<u>3,002,754</u>
OTHER FINANCING SOURCES				
Transfers From Other Funds	<u>1,144,665</u>	<u>1,144,665</u>	<u>825,000</u>	<u>(319,665)</u>
Total Other Financing Sources	<u>1,144,665</u>	<u>1,144,665</u>	<u>825,000</u>	<u>(319,665)</u>
Net Changes in Fund Balances	(1,200,000)	(1,250,000)	1,433,089	2,683,089
Fund Balances - Beginning	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,218,127</u>	<u>18,127</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (50,000)</u>	<u>\$ 2,651,216</u>	<u>\$ 2,701,216</u>

HOPKINS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

CONTINGENCY FUND				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 25,000	\$ 25,000	\$ 27,177	\$ 2,177
Total Revenues	25,000	25,000	27,177	2,177
EXPENDITURES				
Administration	1,539,000	1,539,000		1,539,000
Total Expenditures	1,539,000	1,539,000		1,539,000
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources	(1,514,000)	(1,514,000)	27,177	1,541,177
OTHER FINANCING SOURCES				
Transfers From Other Funds	500,000	500,000	500,000	
Total Other Financing Sources	500,000	500,000	500,000	
Net Changes in Fund Balances	(1,014,000)	(1,014,000)	527,177	1,541,177
Fund Balances - Beginning	1,014,000	1,014,000	1,014,115	115
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,541,292	\$ 1,541,292

HOPKINS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

HOPKINS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

HOPKINS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Local Government Economic Development Fund	Tourism Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$	\$ 101,006	\$ 101,006
Total assets	<u>\$ 0</u>	<u>\$ 101,006</u>	<u>\$ 101,006</u>
FUND BALANCES			
Unreserved:			
Special Revenue Fund	\$	\$ 101,006	\$ 101,006
Total Fund Balances	<u>\$ 0</u>	<u>\$ 101,006</u>	<u>\$ 101,006</u>

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HOPKINS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

HOPKINS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Development Fund	Tourism Fund	Total Non-Major Governmental Funds
REVENUES			
Taxes	\$	\$ 99,615	\$ 99,615
Intergovernmental	400,000		400,000
Interest		445	445
Total Revenues	<u>400,000</u>	<u>100,060</u>	<u>500,060</u>
EXPENDITURES			
General Government	400,000		400,000
Recreation and Culture		52	52
Total Expenditures	<u>400,000</u>	<u>52</u>	<u>400,052</u>
Net Change in Fund Balances		100,008	100,008
Fund Balances - Beginning		998	998
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 101,006</u>	<u>\$ 101,006</u>

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**HOPKINS COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2004

**HOPKINS COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2004

STATE LAWS AND REGULATIONS

The Former Jailer, Jim Lantrip, Had Undisclosed Cash Disbursements Of \$29,693

The Office of the Auditor of Public Accounts was notified of a “vending machine account” being maintained by the former Jailer. Receipts were not deposited into an official bank account and expenditures were made in cash. There was not an account at a bank to record the transactions of these funds. Neither the County Treasurer nor the firm of Peercy and Gray, PSC, was aware that this account existed until August 24, 2005. The Sheriff, who was the acting Jailer, discovered the account and notified the County Treasurer, and she immediately notified us.

The former Jailer’s records indicated that the vending machine activities started June 20, 2001; had cash receipts of \$29,946; cash disbursements of \$28,693; and an ending balance of \$1,253. Cash of \$1,253 was remitted to the County Treasurer September 9, 2005.

The receipts consisted of: vending commissions for drinks \$21,546; transportation fuel reimbursements \$5,649; vending commissions for candy machine \$1,605; calendar advertisements \$585; employee reimbursements \$321; and miscellaneous receipts of \$240. The total receipts of \$29,946 are based solely on the former Jailer’s records.

The disbursements consisted of: drinks purchased \$11,049; transport fuel \$5,649; equipment purchases \$4,740; grounds improvements \$2,005; volunteer appreciation \$1,211; inmate purchases \$854; retirements gifts \$687; funeral flowers \$579; training and conferences \$451; miscellaneous expenditures \$394; competitions \$316; deputy items to be reimbursed \$309; food for inmate transports \$249; and bonuses \$200. The total disbursements of \$28,693 are based solely on the former Jailer’s records.

KRS 68.210 requires all local government officials and employees to adhere to minimum requirements when handling public funds. These requirements include that daily deposits be made into a federally insured banking institution. These cash receipts were maintained at the jail and never remitted or disclosed to the County Treasurer.

The cash expenditures were not presented to or approved by fiscal court, nor are these expenditures reflected in the Jail Fund budget. KRS 441.225 states: “Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county. Payment for purchases for the jail shall be subject to fiscal court approval prior to payment. The fiscal court shall not withhold approval of payment for jail expenditures, which are within the jail budget and not unlawful.”

KRS 68.275 requires that claims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the County Judge/Executive by a warrant drawn on the county and co-signed by the County Treasurer. The County Judge/Executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid.

We recommend that the fiscal court review all cash disbursements made from this account. If claims or expenditures are not approved by fiscal court, we recommend that the former Jailer personally remit funds in the amount of the unapproved claims to the County Treasurer.

**HOPKINS COUNTY
COMMENT AND RECOMMENDATION
Fiscal Year Ended June 30, 2004
(Continued)**

STATE LAWS AND REGULATIONS (Continued)

The Former Jailer, Jim Lantrip, Had Undisclosed Cash Disbursements Of \$29,693 (Continued)

Former Jailer, Jim Lantrip's Response:

At my direction, Bette Arison, Jail Bookkeeper, maintained excellent records of this account and was complimented by the auditor on her excellent records keeping. I can assure you that I never personally handled money from this account. I never received any personal benefit or gain from the account, or to my knowledge did any employee ever receive personal benefit from the account. All profits from this account were spent either directly on the jail or to benefit the jail and the taxpayers of Hopkins County.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

Honorable Patricia Hawkins, Hopkins County Judge/Executive
Members of the Hopkins County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hopkins County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 8, 2005. Hopkins County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hopkins County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hopkins County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Former Jailer, Jim Lantrip, Had Undisclosed Cash Disbursements Of \$29,693

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
July 8, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
HOPKINS COUNTY FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**

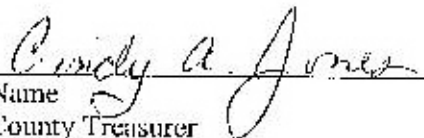
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
HOPKINS COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Hopkins County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer